NATIONAL TEA CO.

1969 Annual Report

MEN, MARKETS AND MERCHANDISING

all of their dry grocery, frozen food and supply requirements.

☐ The National-Mellody Farm Fresh Egg Co. in Libertyville, Illinois, is also undergoing a 300 per cent increase in facilities to keep pace with National's growing need for increased fresh egg sources.

☐ The variety of items manufactured at National's Consumer Products Division plant in Chicago was increased through the addition of liquid detergents, a no-calorie sweetener and a new line of pancake and waffle syrup. Also, improvements were effected in the production of coffee, detergents, preserves, salad dressings, olives, and peanut butter.

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Directors and Officers . . . Inside Back Cover

THE NEW NATIONAL TEA COMPANY

A new image of America's fourth largest supermarket merchandiser is emerging.

This panoramic photo of one of our 30,000 sq. ft. 1970 Generation of National Food Stores, embodying the high-fashion New Orleans decor, captures the spirit, tempo, and progressiveness of the new National Tea Co.

In a new age of space exploration, the mood of the nation is attuned to change, to scientific and technological achievement. We believe our new stores for the Seventies are what our customers want in a pleasant shopping environment, staffed with trained professionals in the supermarket business who are courteous, friendly, and genuinely helpful.

More than 50 of these next-decade stores, generally ranging in size from approximately 22,000 to 30,000 sq. ft., are now serving families in 20 states . . . from the Canadian border to the Gulf of Mexico, and from New York to California. Another 50 such new stores are on the drawing boards. The Company's modern marketing strategy is exemplified in the new concept of the supermarket of tomorrow. In our largest new stores nearly one-third of the sales area is devoted to general merchandise—family clothing, hardware, drugs, auto supplies, housewares—traditional variety store and department store product lines. Depending upon the consumer requirements of the marketing area, a self-contained Kare Drug store, garden shop,

THE TOTAL MERCHANDISING CONCEPT

MANUFACTURING, PROCESSING & PROCUREMENT CENTERS

CONSUMER PRODUCTS DIVISION
Chicago, Illinois

BEEF PACKING & MEAT PROCESSING DIVISION
Denver, Colorado

MEAT PROCESSING DIVISION
Fergus Falls, Minnesota

PRODUCE PROCUREMENT DIVISION
Fresno, California

PRODUCE PROCUREMENT DIVISION
Lakeland, Florida

SO-FRESH PRODUCE CO.
Franklin Park, Illinois

NATIONAL LABORATORIES, INC.
Chicago, Illinois

WM. H. HEINEMANN BAKERIES, INC.
Milwaukee, Wisconsin

SCHMIDT'S BAKESHOP, INC.
St. Louis, Missouri

NATIONAL-MELLODY FARM FRESH EGG CO.
Libertyville, Illinois

RETAILING CENTERS

CHICAGO
235 stores
33 Kare Drugs

DAVENPORT
28 stores
2 Kare Drugs

DEL FARM
23 stores
4 Kare Drugs

DENVER
42 stores
8 Kare Drugs

INDIANAPOLIS
72 stores
1 Kare Drug

MILWAUKEE
59 stores
1 Kare Drug

MINNEAPOLIS
83 stores
3 Kare Drugs

NEW ORLEANS
63 stores
22 Kare Drugs

ST. LOUIS
55 stores
9 Kare Drugs

SIOUX CITY
44 stores

YOUNGSTOWN
96 stores
4 Kare Drugs

OBEE INSTITUTIONAL FOOD SERVICE CO.
Franklin Park, Illinois

LOBLAW
BUFFALO-SYRACUSE
LOS ANGELES
160 stores

HOW NATIONAL SERVES THE CONSUMER

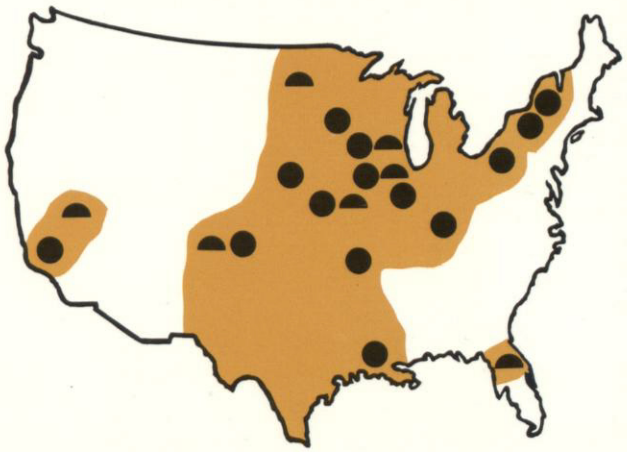
National Tea Co. is the fourth largest supermarket merchandiser in the nation, serving millions of customers each week in 960 stores from the Canadian border to the Gulf of Mexico, from New York to California.

The Kare Drug stores are major merchandisers of ethical pharmaceuticals, health and beauty aids, and general merchandise.

To insure the highest quality in fresh and processed meats, National operates company-owned meat plants in Denver, Colorado and Fergus Falls, Minnesota.

The Consumer Products Division manufactures grocery products to meet the highest standards.

Quality control for "dawn dew" fresh fruits and vegetables originates in Produce Procurement Divisions headquartered in the center of the lush growing areas of California and Florida.



MANUFACTURING, PROCESSING & PROCUREMENT CENTERS

RETAILING CENTERS

delicatessen, or other "shops" make this true all-under-one-roof shopping for family convenience.

OPERATIONAL HIGHLIGHTS OF THE YEAR

☐ Plans were developed for a new 410,000 sq. ft. distribution center to serve the Indianapolis Division. This facility is scheduled to be in operation by summer of 1970. The pre-stressed concrete modular construction of the building will be the most advanced design in the food merchandising industry, and will feature a highly automated product handling system. This facility will replace an overcrowded grocery warehouse, a separate perishables warehouse and extensive outside storage, and will effect marked distribution efficiencies in the highly productive Indiana area.

☐ National's So Fresh Potato Packaging Plant in Franklin Park, Illinois, was doubled in size this year and a new $1,000,000 Institutional Foods warehouse, also located in Franklin Park, was placed in operation in the Fall of 1968. Construction of freezers will be completed in 1969, whereupon Obee Institutional Food Service Company, our institutional wholesale subsidiary, will add a complete line of frozen foods. We will then have the unique capability of furnishing Chicago area restaurants, schools, hospitals and other institutional users with one-stop delivery on

FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED:	March 29, 1969	December 30, 1967	December 31, 1966	January 1, 1966	January 2, 1965 (53 weeks)
Sales	$1,192,627,535	$1,147,220,942	$1,190,494,686	$1,161,948,193	$1,122,515,806
Income before Federal income taxes	$ 14,010,880	$ 15,966,225	$ 18,807,775	$ 19,891,190	$ 20,346,294
Federal income taxes	6,382,000	6,684,000	7,946,000	8,575,000	9,706,000
Extraordinary items, net of taxes	(435,000)	1,491,515	—	—	—
Net income	$ 7,193,880	$ 10,773,740	$ 10,861,775	$ 11,316,190	$ 10,640,294
Percent to sales	.60%	.94%	.91%	.97%	.95%
Per share*					
Before extraordinary item	$ .97	$ 1.18	$ 1.30	$ 1.33	$ 1.25
Extraordinary item	(.05)	.19	—	—	—
Net income	.92	1.37	1.30	1.33	1.25
Dividends per share	.80	.80	.80	.80	.80
AT YEAR END:					
Working capital	$ 72,997,585	$ 59,783,321	$ 57,676,864	$ 63,031,103	$ 61,729,199
Property and equipment	110,244,566	86,106,124	89,383,710	93,481,743	92,987,098
Long-term debt	52,579,626	22,305,258	25,758,274	25,380,901	30,905,630
Shareholders' investment	119,240,923	122,415,374	117,889,000	126,659,444	119,227,040
Shares outstanding	7,583,693	7,847,156	7,845,056	8,631,976	8,483,152
Book value per share	15.72	15.60	15.03	14.67	14.05
Supermarkets in operation	800	852	865	941	973

*Based upon weighted average of shares outstanding.

PRESIDENT'S LETTER

To our Shareholders:

The fiscal year ended March 29, 1969, the Company's 70th year of operation, was a year of transition, growth, and building for the future.

Sales reached a new peak of $1,192,627,535, surpassing the previous record established in 1966, when the Company operated 26 stores in the Memphis area and 66 stores in the Detroit area during part of the year, all of which have since been sold or closed. Sales in the fiscal year 1969 exceeded those of the calendar year 1967, our last prior complete fiscal year, by 4 per cent, despite the closing of our Memphis Division early in the fiscal year.

Net income amounted to $7,193,880 or $.92 per share, after net extraordinary charges of $435,000 or $.05 per share. In the year 1967, net income of $10,773,740, or $1.37 per share included an extraordinary credit of $1,491,515, or $.19 per share. The number of shares outstanding was substantially the same in both years.

Growth, increased profitability and operational effectiveness in accordance with the most progressive concepts of retail merchandising are our key objectives. In previous reports we have discussed our continuing program of development of "Supermarkets for the Seventies," and the fiscal year 1969 was a year of substantial progress toward our goal. Sixteen new or relocated stores were opened, 13 existing stores were enlarged and remodeled to the new specifications and an additional 19 stores, being of adequate size, required only remodeling. Thus we were able to take a giant stride in the direction of one-stop shopping for all of our customers in all of our market areas. As of year end, with the program in its second year, 56 of our 800 stores are of the new generation. In addition, we opened 28 Kare Drug Departments, raising the number of these Departments presently in operation to 87.

We have accomplished these improvements in our stores within the limitations of capital expenditures as planned after the successful initiation of this program in 1967. Net capital expenditures, including warehouse, transportation and office additions, as well as store additions, during the fiscal year amounted to $15,748,844.

During the year 65 stores were closed. Included in this total were 21 stores formerly operated in the Memphis area, 9 stores relocated, as indicated above, and 35 outmoded stores, which were closed because they did not measure up to our standards for contribution to corporate profit.

The Company has moved rapidly into this "Supermarkets for the Seventies" program, and has accelerated its Kare Drug program recognizing that this development would penalize current earnings to some extent. The new, larger stores, and particularly the drug, general merchandise and some specialty departments require a longer period before their full volume and profit potential is reached. However, these stores have been engineered from the ground up as super-effective profit centers, yielding substantially higher volume than our older, smaller stores. They are operated at lower cost, attained through greater effectiveness in almost every facet of store operations. As these stores mature, they can be expected to generate sufficient volume to enable us to cope with the ever-rising cost of doing business and to earn a reasonable margin of profit.

One of the most significant events of the year was the purchase on March 28, 1969, after months of study and investigation, of a 71.45 per cent interest in Loblaw Inc. of Buffalo, New York, for $22,500,000, or $8.47 per Loblaw share. The shares were purchased from D.F.C. Inc., a wholly-owned subsidiary of Loblaw Groceterias Co., Limited, which also owns indirectly a majority of the common shares of National Tea Co.

Loblaw Inc. operates 160 supermarkets in northwestern New York, western Pennsylvania, Ohio, and the Los Angeles area. It is a profitable, sound business enterprise operated by capable management.

This investment by National will add $250 million in sales volume to our total operations. Loblaw Inc. earned $2,572,556 in the year ended March 29, 1969, which is not included in National's earnings since our interest was not acquired until the close of the year. Loblaw's sales and earnings will be consolidated with those of National beginning with the new fiscal year. Although Loblaw's income has not been consolidated with National's, the accompanying balance sheet does consolidate the accounts of National and Loblaw.

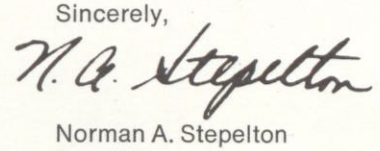
This acquisition brings our total stores to 960 and positions National as the fourth largest supermarket chain in America. The combined companies have stores ranging from the Canadian border to the Gulf of Mexico, and from New York to California.

Joining the resources and talents of the Loblaw Inc. management with ours, makes for a bigger and stronger company with new merchandising concepts and strategies attuned to an expanding growth economy.

The decade of the Seventies is destined to be one of the greatest periods of growth in the history of our Company. Inside the front cover is a dramatic photo capturing the spirit of our new marketing strategy—the 1970 National Food Store. This new concept in American supermarketing personifies the emerging image of our Company.

For the balance of 1969, we see continuation of the trend of increased sales and significant improvement of net income. These will result from the combined effect of more efficient store operations, flexible merchandising strategies in the various Divisions, further improvement in management systems and the continued dedicated support of the National Tea Co. family of employees. Our new business associates at Loblaw Inc. are a welcome addition to the National Tea Co. family, and we are sure this new association will result in improved profitability for their company as well as our own.

Sincerely,



Norman A. Stepelton
President

FINANCIAL REVIEW

Continuation of the Company's program of internal growth together with the agreement for the purchase of a 71.45 per cent interest in Loblaw Inc. were financed by a $35,000,000 bank term loan which was consummated March 28, 1969. The loan was negotiated with a group of banks which have served several of our divisions over a period of many years. Of the proceeds, $22,500,000 was used to purchase 2,655,720 Common shares of Loblaw Inc., $4,000,000 was used to retire the existing bank loan, and $8,500,000 was added to working capital. Had it not been for our investment in Loblaw, the Company would have had to borrow for its working capital needs during the year.

This is a seven year loan, repayable in semi-annual installments of $1,500,000 beginning in October of 1969, increasing to $2,000,000 in October of 1972, and a final payment of $12,000,000 in April, 1976. The interest rate will vary with the prime rate, being ¼ per cent over prime on the portion to be repaid in semi-annual installments and ½ per cent over prime on the final payment portion.

National's program of internal growth added 10 new store locations and enlarged two stores in the three-month fiscal period ended March 30, 1968. Added to the 16 new and 32 enlarged or remodeled stores as described in the President's Letter, this adds up to an important improvement in our stores and also a substantial cash outlay for fixed assets and additional inventory.

Supermarkets opened during the fiscal year were larger, on the average, than in prior years. Enlargement of 10 stores added significantly to total selling area in those stores. Overall, despite the net loss of 52 stores during the year, the total number of square feet devoted to retail stores declined only slightly. At the same time the size of our average store increased to 14,611 square feet. As an indication of the improved efficiency that the new, larger stores bring to our operation, sales per square foot were over $100 for the first time, an increase of more than 5 per cent over the prior year.

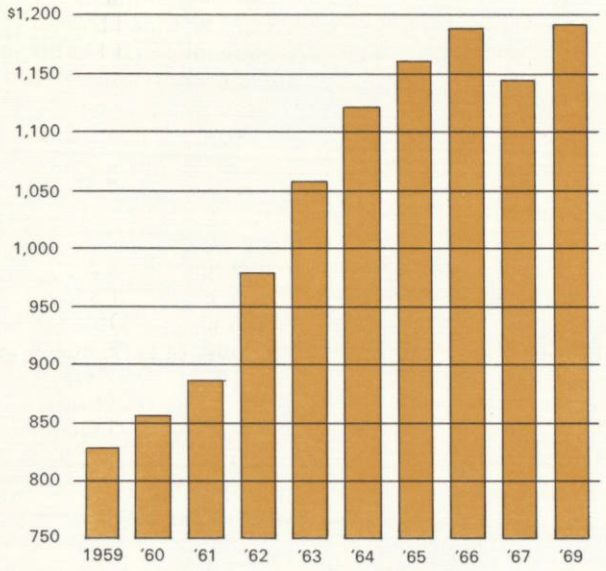
The net outlay for new fixed assets over the past 15 months was $20,871,197. In addition to these expenditures, our investment in inventories increased by more than $1,000,000, partially as a result of the expanded variety of merchandise being carried in our stores and partially as a result of price inflation. The average combined investment in store inventories and store fixed assets, which has been rising for several years at the approximate rate of 4 per cent per year, rose over 10 per cent this year, from $136,500 to $150,800. In order to maintain the present rate of store improvement which is so essential to our profit improvement plan, it was necessary to obtain additional outside financing. Our projections indicate that the $8,500,000 added to working capital this year will carry our growth plan to the point where it becomes self-sustaining.

FINANCIAL STATEMENTS

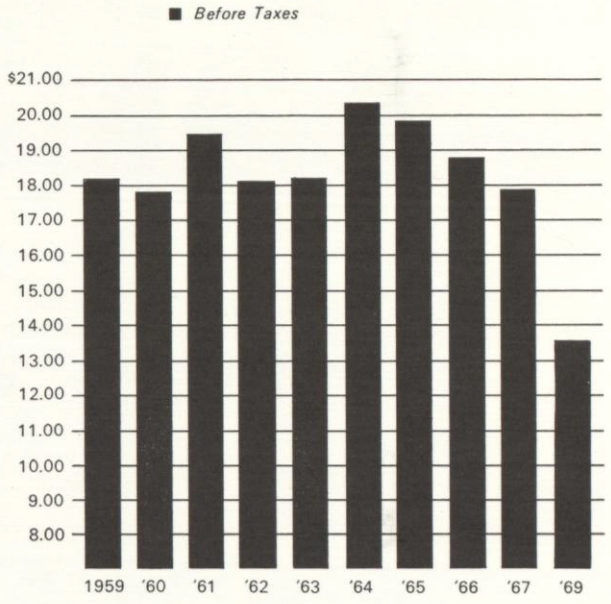
The change in fiscal years, effected on March 30, 1968, resulted in a short fiscal year of only 13 weeks. In order to present a meaningful comparison in these statements, the results of operations for the fiscal year ended March 29, 1969, and the balance sheet as of that date are compared with the results of operations for the full year ended December 30, 1967, and the balance sheet as of March 30, 1968.

Income of Loblaw Inc., for the year ended March 29, 1969, is not included with that of the Company since Loblaw was acquired as of the close of the year. The balance sheet of Loblaw, however, is consolidated with that of the Company. The price paid for our investment in Loblaw Inc. was approximately $3,800,000 less than the underlying book value. As explained in the Notes to Financial Statements on page 11, this amount has been deducted from the total for Property and Equipment in the consolidated balance sheet, pending appraisal of the Loblaw Inc. assets.

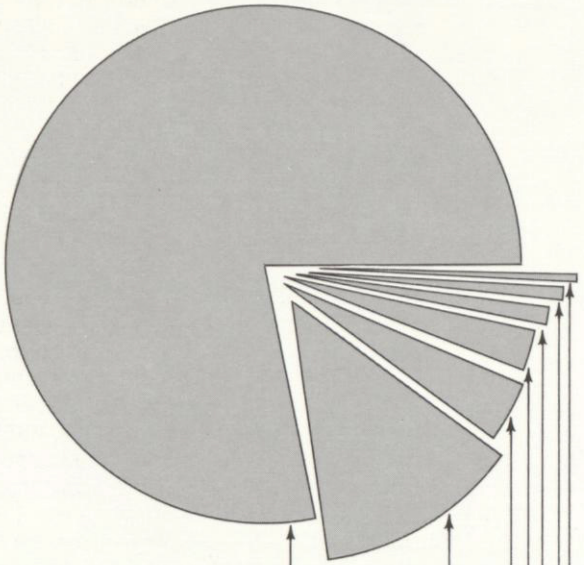
10 YEAR SALES TREND (IN MILLIONS)



10 YEAR NET EARNINGS (IN MILLIONS)

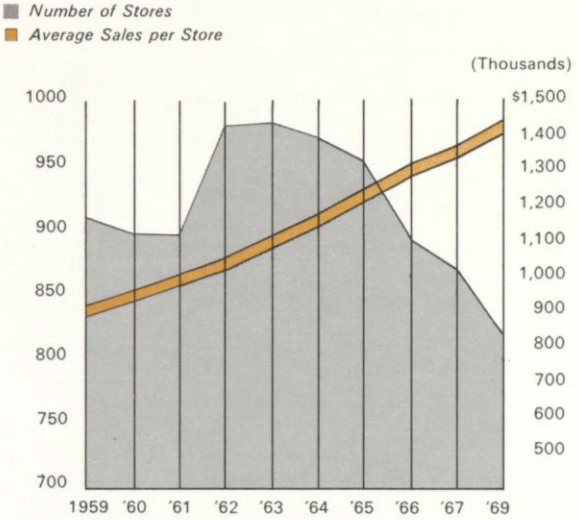


1969 DISTRIBUTION OF THE SALES DOLLAR

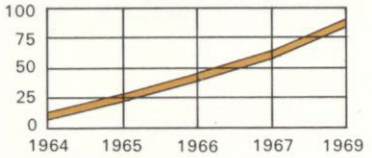


Cost of Merchandise Sold	78.78%
Wages and Benefits	13.58%
Rent, Repairs and Depreciation	3.67%
Other Expenses	2.27%
Taxes	1.10%
Dividends	.53%
Retained Earnings	.07%

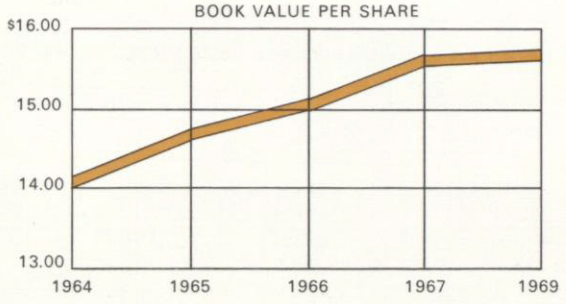
NUMBER OF STORES AND AVERAGE ANNUAL SALES PER STORE



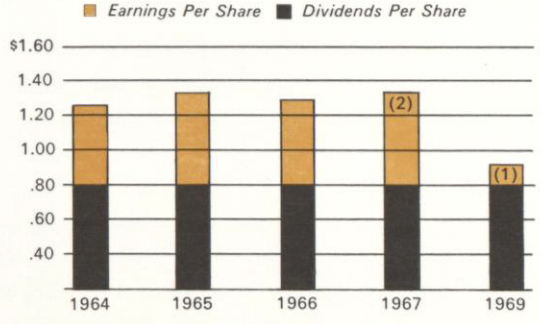
GROWTH IN NUMBER OF KARE DRUG DEPARTMENTS



BOOK VALUE PER SHARE



EARNINGS AND DIVIDENDS PER SHARE



Footnotes:

(1) After net special charge of $.05 per share.

(2) Including special credit of $.19 per share.

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 29, 1969	March 30, 1968
CURRENT ASSETS:		
Cash	$ 14,536,230	$ 6,224,183
Accounts receivable	9,167,380	8,301,762
Inventories, at lower of average cost or market	114,211,021	91,514,259
Prepaid expenses, etc.	6,019,831	5,662,697
Real estate in process of development and sale	1,639,216	3,234,260
Total current assets	$145,573,678	$114,937,161
OTHER ASSETS	$ 5,191,234	$ 4,438,635
PROPERTY AND EQUIPMENT, at cost:		
Land	$ 4,796,360	$ 2,857,812
Buildings	14,327,402	7,905,878
Fixtures and equipment	152,732,916	121,400,102
Reserves for depreciation	(82,795,577)	(63,233,735)
Leasehold improvements, less amortization	22,308,336	18,256,458
	$111,369,437	$ 87,186,515
Net excess of book value of subsidiaries at dates of acquisition over cost of investments—excess cost of investments over book value in 1968	(1,124,871)	906,292
	$110,244,566	$ 88,092,807
	$261,009,478	$207,468,603

The accompanying notes are a

NATIONAL TEA CO. & SUBSIDIARIES

LIABILITIES

	March 29, 1969	March 30, 1968
CURRENT LIABILITIES:		
Bank loans	$ 2,300,000	$ —
Current maturities of long-term debt	3,439,887	3,415,000
Accounts payable	51,950,577	42,197,247
Accrued liabilities	9,332,944	6,985,613
Federal income taxes	5,552,685	4,780,810
Total current liabilities	$ 72,576,093	$ 57,378,670
LONG-TERM DEBT:		
7¾-8% bank term loan, due semi-annually with final installment of $12,000,000 in 1976	$ 33,500,000	$ —
5% sinking fund debentures, due 1977	6,720,000	7,200,000
4% promissory notes, due serially to 1973	5,800,000	6,800,000
Installment mortgage and chattel mortgage notes on store and warehouse buildings and equipment, maturing from 1972 to 1992	4,246,626	671,091
3½% subordinated debentures, due 1980	2,313,000	2,323,000
5¼% installment note	—	4,000,000
3½% promissory note	—	86,000
	$ 52,579,626	$ 21,080,091
OTHER LIABILITIES:		
Deferred Federal income taxes	$ 5,256,927	$ 5,440,500
Self-insurance	850,000	800,000
	$ 6,106,927	$ 6,240,500
MINORITY INTEREST	$ 10,505,909	$ —
SHAREHOLDERS' INVESTMENT:		
Common shares, $4 par value, authorized 10,000,000 shares; issued 8,756,788 shares in 1969 and 1968	$ 35,027,152	$ 35,027,152
Paid-in capital	30,823,955	30,823,955
Retained earnings	72,803,684	71,887,228
	$138,654,791	$137,738,335
Less cost of 1,173,095 common shares in treasury (909,632 in 1968)	(19,413,868)	(14,968,993)
	$119,240,923	$122,769,342
	$261,009,478	$207,468,603

tegral part of these statements.

STATEMENTS OF CONSOLIDATED INCOME, RETAINED EARNINGS AND PAID-IN CAPITAL

	Fifty-Two Weeks Ended	
	March 29, 1969	December 30, 1967
INCOME:		
SALES	$1,192,627,535	$1,147,220,942
COSTS AND EXPENSES:		
Cost of sales, occupancy, buying and other operating expenses	$1,027,196,662	$ 991,155,040
Selling, general and administrative expenses	150,036,408	138,499,220
Interest expense, net	961,585	1,124,457
Profit sharing	422,000	476,000
Federal income taxes:		
Payable currently	6,796,000	6,195,000
Deferred	(414,000)	489,000
	$1,184,998,655	$1,137,938,717
Income before extraordinary items	$ 7,628,880	$ 9,282,225
EXTRAORDINARY ITEMS, net of applicable Federal income taxes	(435,000)	1,491,515
Net income	$ 7,193,880	$ 10,773,740
Per Common Share:		
Income before extraordinary items	$ .97	$1.18
Extraordinary items, net of tax	(.05)	.19
Net income	$ .92	$1.37
RETAINED EARNINGS:		
BALANCE—Beginning of period	$ 71,887,228	$ 67,036,024
ADD (DEDUCT):		
Net income	7,193,880	10,773,740
Dividends ($.80 per share)	(6,277,424)	(6,276,504)
BALANCE—December 30, 1967		$ 71,533,260
Transactions during the thirteen weeks ended March 30, 1968:		
Net income		1,923,399
Dividends ($.20 per share)		(1,569,431)
BALANCE—End of period	$ 72,803,684	$ 71,887,228
PAID-IN CAPITAL:		
BALANCE—Beginning of period	$ 30,823,955	$ 30,803,217
Excess of proceeds over par value of common shares sold to officers and employees under stock option plan	—	20,738
BALANCE—End of period	$ 30,823,955	$ 30,823,955

The accompanying notes are an integral part of these statements.

STATEMENT OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS

	Fifty-Two Weeks Ended	
	March 29, 1969	December 30, 1967
SOURCE OF FUNDS:		
Net income	$ 7,193,880	$10,773,740
Non-cash items deducted in arriving at net income:		
Depreciation and amortization	14,006,867	13,399,780
Deferred Federal income taxes	(1,025,328)	489,000
	$20,175,419	$24,662,520
Proceeds from bank term loan of $35,000,000 (net of 5¼%, $4,000,000 note refinanced)	31,000,000	—
Working capital of Loblaw Inc. acquired	12,160,311	—
Proceeds from sale of 2,100 common shares to optionees	—	29,138
Total	$63,335,730	$24,691,658
DISPOSITION OF FUNDS:		
Cash dividends to shareholders	$ 6,277,424	$ 6,276,504
Additions to property and equipment, net	15,748,844	12,360,355
Maturities of long-term debt	3,233,772	3,453,016
Acquisition of 2,655,720 Loblaw Inc. common shares	22,500,000	—
Acquisition of treasury shares	7,375	—
Other dispositions, net	129,221	495,326
Increase in working capital	15,439,094	2,106,457
Total	$63,335,730	$24,691,658

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of Loblaw Inc.

On March 28, 1969, the company purchased for $22,500,000 cash, 71.45% of the outstanding common stock of Loblaw Inc. from D.F.C. Inc., a wholly-owned subsidiary of Loblaw Groceterias Co., Limited, which owns indirectly 55% of the outstanding common shares of National Tea Co. Since this transaction was accounted for as a purchase as of the close of the fiscal year, only the balance sheet of Loblaw Inc. has been consolidated in the accompanying financial statements. 262,963 shares of National Tea Co. stock held by Loblaw Inc. have been treated as treasury stock. The net book value of the assets of Loblaw Inc. acquired exceeded the purchase price by $3,792,371. This excess is subject to allocation to the assets, leaseholds, etc. acquired, based on independent appraisal to determine fair market value. This amount has been classified on the balance sheet with excess of cost of investment in subsidiaries over underlying book values at dates acquired of $1,842,089 for a Loblaw subsidiary and $825,411 for National Tea Co. subsidiaries.

Loblaw Inc. is a food chain headquartered in Buffalo, New York, which had sales of $248,326,429 and net income of $2,572,556 (including after-tax income in the amount of $195,000 from National Tea Co. cash dividends and $158,000 from an extraordinary credit) during the fifty-two weeks ended March 29, 1969.

Long Term Debt

Under the bank term loan agreement interest rates vary with the prime rate, being ¼% over prime on the portion to be repaid in semi-annual installments ($23,000,000) and ½% over prime on the final installment ($12,000,000).

Aggregate maturities and sinking fund requirements under long-term loan agreements, exclusive of minor installments due on store and warehouse building mortgage loans are $3,440,000 in 1970, $5,082,000 in 1971, $5,023,000 in 1972, $5,510,000 in 1973, and $5,913,000 in 1974.

Dividend and Working Capital Restrictions

The bank term loan agreement contains certain restrictions among which are that the company will not pay cash dividends or reacquire its capital stock in an amount in excess of earnings subsequent to March 29, 1969, plus $3,500,000. In addition, the company must maintain consolidated working capital of not less than $55,000,000.

Under the terms of the indenture securing the 5% Sinking Fund Debentures, the company must maintain a current ratio of consolidated current assets to consolidated current liabilities, as defined in the indenture, of at least 2 to 1. As of March 29, 1969, the current ratio as defined was 2.2 to 1.

Extraordinary Items

In 1967 the company sold real estate and reported an extraordinary gain of $1,491,515 (net of $497,000 Federal income taxes). As a part of the purchase price, the company received an installment note in the amount of $4,050,000. In 1968 the company agreed with the noteholder to defer all payments for a period of one year, so that the first payment would not be due until July 5, 1969. The company believes that there is a possibility of default and has provided as an extraordinary charge a reserve of $1,235,000 (net of Federal income tax credit of $448,000) for possible loss on default.

During 1968 the company settled various tax matters with the Internal Revenue Service and has included in income as an extraordinary credit $800,000 of Federal income tax reserves previously set aside to cover contingencies.

Depreciation

Depreciation is calculated using the straight line composite method for all assets except buildings and leasehold improvements at rates which will amortize the cost of the assets over their estimated useful lives. Buildings and leasehold improvements are depreciated at straight line rates over their estimated useful lives.

Lease Commitments

At March 29, 1969, the company and its subsidiaries had 768 leases (some of which contain percentage rental clauses) expiring more than three years after that date with minimum annual rentals amounting to approximately $22,900,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 53% applies to leases expiring within 10 years.

AUDITORS' REPORT

TO THE SHAREHOLDERS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation indirectly 55% owned by Loblaw Groceterias Co., Limited) AND SUBSIDIARIES as of March 29, 1969, and the related statements of consolidated income, retained earnings, paid-in capital and source and disposition of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Loblaw Inc. and Subsidiaries whose assets represent approximately 20% of the total consolidated assets were examined by other auditors and we were furnished with their report on such consolidated financial statements.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying consolidated financial statements referred to above present fairly the financial position of National Tea Co. and Subsidiaries as of March 29, 1969, and the results of their operations and the source and disposition of funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Chicago, Illinois,
May 9, 1969

Arthur Andersen & Co.

Board of Directors

JOHN F. CUNEO
President, The Cuneo Press, Inc.

EDWARD L. JONES
Vice President, Secretary and Treasurer,
Loblaw Companies Limited

J. E. LAUGHLIN
Senior Vice President

FRANK E. LINQUIST
Executive Vice President

RICHARD G. MEECH
Attorney at Law

GEORGE C. METCALF
Chairman of the Company,
President, Loblaw Companies Limited

W. STRUAN ROBERTSON
Partner, Borden, Elliot, Kelly
and Palmer

NORMAN A. STEPELTON
President and
Chief Executive Officer

W. GARFIELD WESTON
Chairman of the Board,
George Weston Limited

Principal Corporate Officers

GEORGE C. METCALF
Chairman of the Company

NORMAN A. STEPELTON
President and
Chief Executive Officer

FRANK E. LINQUIST
Executive Vice President

J. E. LAUGHLIN
Senior Vice President

Vice Presidents

RODGERS N. BROWN
Division Manager

JAMES E. COLLOTON
Warehousing & Transportation

MARVIN E. CROSS
Produce Operations

ROBERT S. KLEGON
Drug Operations

WILLIAM J. LEDERER
General Counsel

WILLIAM H. LOWMAN
Meat Operations

NAT MALT
Regional Operations

H. L. MARTIN
Personnel

J. P. QUIRK
Regional Operations

ROBERT E. SWAIN
Store Planning & Equipment

WILSON B. THOMAS
Real Estate

E. C. WINLAND
Management Information Systems

Secretary Treasurer
ALLAN WILSON, JR.

Comptroller
LEONARD ZARZYNSKI

GEORGE C. METCALF
Chairman of the Company

NORMAN A. STEPELTON
President and
Chief Executive Officer

HOME OFFICE

1000 N. Crosby Street
Chicago, Illinois 60610

DIVISIONAL OFFICES AND WAREHOUSES

Chicago, Minneapolis, Milwaukee,
Indianapolis, St. Louis,
New Orleans, Davenport,
Denver, Sioux City, Youngstown

TRANSFER AGENTS

The First National Bank of Chicago
Chicago, Illinois
The Chase Manhattan Bank
New York, New York

REGISTRARS

Continental Illinois National Bank
& Trust Company of Chicago
Chicago, Illinois
Chemical Bank
New York, New York

TRANSFER AND PAYING AGENTS

3½% Debentures
Chemical Bank
New York, New York

5% Debentures
Morgan Guaranty Trust Company
New York, New York

National Tea Co.
1000 N. Crosby Street
Chicago, Illinois 60610